

82nd ANNUAL REPORT

1939

*This Report is Addressed to Both
Stockholders and Employees*



The Borden Company
ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

BOARDS

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CORP. FILE



BOARD OF DIRECTORS

ALBERT G. MILBANK

*Chairman of the Board
New York*

HOWARD BAYNE
New York

LESTER LE FEBER
Milwaukee

THOMAS I. PARKINSON
*President, The Equitable Life
Assurance Society of the United States
New York*

HAROLD W. COMFORT
*Vice-President
New York*

MADISON H. LEWIS
*Pioneer Ice Cream Division
New York*

BEVERLEY R. ROBINSON
*Milbank, Tweed & Hope
New York*

L. MANUEL HENDLER
*South Eastern Ice Cream Division
Baltimore*

THEODORE G. MONTAGUE
*President
New York*

HARRY A. ROSS
*Director of Economics
New York
Formerly Professor of Marketing
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ROBCLIFF V. JONES
*Vice-President
New York*

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New York

GEORGE M. WAUGH, JR.
*Executive Vice-President
New York*

OFFICERS

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Chairman

THEODORE G. MONTAGUE
President

GEORGE M. WAUGH, JR.
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ROBCLIFF V. JONES, *Vice-President*

ARTHUR W. RAMSDALL, *Vice-President*
EVERETT L. NOETZEL, *Treasurer*
WALTER H. REBMAN, *Secretary*
GEORGE BITTNER, *Assistant Treasurer*
HAROLD K. KRAMER, *Assistant Treasurer*

THEODORE D. WAIBEL, *Assistant Secretary*

EXECUTIVE OFFICES

350 Madison Avenue, New York City

REGISTERED OFFICE

15 Exchange Place, Jersey City, N. J.

TRANSFER AND DIVIDEND DISBURSING AGENT

THE CHASE NATIONAL BANK OF THE
CITY OF NEW YORK
11 Broad Street, New York City

REGISTRAR

BANKERS TRUST COMPANY
16 Wall Street, New York City

COUNSEL

MILBANK, TWEED & HOPE
15 Broad Street, New York City

AUDITORS

HASKINS & SELLS
22 East 40th Street, New York City

To Stockholders and Employees:

There is submitted herewith the annual report of The Borden Company and all subsidiary companies for the year ended December 31, 1939.

NET INCOME AND DIVIDENDS

Net Income for 1939 was \$7,979,837, equivalent to 3.8% on sales and \$1.81 per share as contrasted with \$6,641,204 or 3.1% on sales and \$1.51 per share obtained in 1938. Net Income includes all earnings from foreign operations (primarily in Canada) converted to their United States dollar equivalent at average rates of exchange prevailing during the months in 1939 when earned. All exchange variations on remittances have been and will continue to be absorbed in Net Income to the extent not provided for by the discounting of current foreign earnings. The unremitted part of the 1939 foreign earnings, in the equivalent of United States dollars, amounted to \$403,233.

Dividends aggregating \$1.40 per share were paid in 1939 as follows:

March 1	\$.30	September 1	\$.30
June 130	December 2050

This is the same total rate as paid in 1938. The dividend in December 1939 was the 119th in the series of continuous payments to stockholders during every year for the past 41 years.

SALES

Sales amounted to \$208,789,250 for 1939 compared with \$212,038,654 for 1938.

General business conditions during the first six months of 1939 were not favor-

able. However, the much improved conditions prevailing in the last six months resulted in a unit sales increase in all major divisions of the Company except the Fluid Milk Division.

TAXES

Taxes of every nature for 1939 (including Social Security Taxes of \$1,792,500) amounted to \$6,720,632 or \$1.53 per share.

Since the close of the year, we have effected a settlement with the Federal Government regarding additional income taxes for certain prior years based on the contention that the Company had charged off excessive depreciation. The settlement covered the eight years from 1931 to 1938 inclusive. The additional taxes and interest will be charged to reserves established in prior years, and therefore the current year's earnings and Earned Surplus are unaffected thereby. Furthermore, depreciation allowances have been established for 1939 and 1940 which result in very little change in the aggregate amount of depreciation currently charged to operations.

During the past six years taxes paid by the Company have increased from \$3,714,186 or 84¢ per share to \$6,720,632 or \$1.53 per share in 1939. Taxes for 1939 are about 15% greater than the Company's recent average annual capital expenditures.

Tax authorities received \$565,247 more than the dividends paid to our 46,889 stockholders who owned the 4,396,704 shares of stock outstanding during 1939.

Statistically, the burden of taxation can be shown as follows:

Year	Total	Per Share
1934.....	\$3,714,186	\$.84
1935.....	4,282,329	.97
1936.....	5,205,458	1.18
1937.....	5,705,516	1.30
1938.....	6,577,060	1.50
1939.....	6,720,632	1.53

The above tabulation does not reflect tax changes due to the adjustment of the Company's depreciation allowances for prior years as the comparative effect between years was not substantial.

1939 taxes amounted to \$239 per employee or \$143 per stockholder.

NET WORKING CAPITAL

This item at the close of the year stood at \$39,203,231 compared with \$40,653,285 at December 31, 1938.

The ratio of Current Assets to Current Liabilities on December 31, 1939 was \$3.41 to \$1.00, which compares with a ratio of \$4.20 to \$1.00 on December 31, 1938.

Net Working Capital in foreign countries (principally Canada) on December 31, 1939 has been converted at exchange rates prevailing on that date and is included in the Balance Sheet at its United States dollar value.

Foreign earnings, as previously stated, have been and will be properly discounted and exchange losses on actual remittances to the United States in excess of this discount are absorbed in current earnings. The unrealized loss (beyond that provided for by the discounting of current earnings) on the Net Working Capital still remaining in foreign countries has therefore been charged against a Reserve created from Earned Surplus in the amount of \$460,937. In the event foreign exchange rates are restored to former pari-

ties, or stabilized at levels higher than those prevailing on December 31, 1939, all or part of this Reserve will be returned to Earned Surplus without any effect on the operating income. Similar action was taken in 1931 when a reserve for \$854,262 was created and the entire reserve was returned to Earned Surplus in 1933 when exchanges again reached parity.

Cash on hand at the end of the year was \$20,291,906, which was in excess of the total of all Current Liabilities on that date, amounting to \$16,251,163. Cash on December 31, 1938 was \$19,701,562.

Inventories of \$17,514,225 compare with \$16,208,785 of last year. As usual, all inventories are valued at cost or market, whichever is lower. Inventory write-off at the year end amounted to only \$86,924 as compared with \$181,803 in 1938.

Marketable Securities, which include a substantial amount of United States Government securities and material holdings of Canadian Government securities, taken at their cost, amounted to \$5,541,473 and at their United States dollar market value to \$5,411,811, at December 31, 1939. These totals compare with a cost of \$5,752,274 and a market value of \$5,601,190 on December 31, 1938 for the securities then owned. As of December 31, 1939 part of these securities having a market value of \$1,932,985 were on deposit with certain Governmental bodies to guarantee compliance with various milk control laws, workmen's compensation acts, etc.

Receivables at the end of 1939 amounted to \$12,236,450 and were equivalent to approximately 25 days' average sales. All credit losses have been charged off and adequate reserves against future losses have been created by charges to operations, leaving Receivables in sound condition.

PROPERTIES

During 1939 the Company authorized expenditures of \$6,111,836 for replacements and new or improved facilities. The increasing burden of higher taxes and labor costs have made it imperative that the Company promptly utilize modern equipment and technique to reduce costs and improve efficiency. The Company's plants therefore must be fully maintained. The Budget of Capital Expenditures for 1940, as approved by the Board of Directors, is \$6,924,320.

In the settlement of the depreciation controversy with the Federal Government, composite depreciation rates were established. This requires continuation of depreciation on items of equipment which survive beyond the estimated average life in order to offset insufficient depreciation on equipment of the same general type which is retired before reaching estimated average age. In order to conform to the basis of settlement, it was necessary to reinstate, as of 1939, on the books of the Company \$8,613,888 of plant machinery and equipment values heretofore considered as fully depreciated, but as the same amount was restored to the Reserves for Depreciation, this action was without effect on the net value of Property, Plant and Equipment.

TOTAL ASSETS

Total Assets, including Trade-marks, Patents and Good-Will carried at the nominal value of one dollar, amounted to \$125,714,933 compared with \$122,400,607 at December 31, 1938. It is interesting to note that it required an average of about \$4,474 of capital investment, including Current Assets, for each employee main-

tained on the Company payroll during 1939.

Assets in foreign countries (principally Canada), after depreciation and exclusive of Current Assets, on December 31, 1939 amounted to \$5,814,573. These assets are included at parities of the foreign currencies which generally reflect their United States dollar value at the time when such assets were acquired or constructed. This represents 8% of the Total Assets, other than Current Assets, on December 31, 1939.

CAPITAL STOCK

There was no change in either the total authorized or outstanding shares of Capital Stock during the year, and the capital structure continues without any outstanding securities senior to the Common Stock of The Borden Company.

The Capital Stock outstanding December 31, 1939 was held by 46,889 stockholders with an average holding of 94 shares, which compares with 47,668 stockholders with an average holding of 92 shares on December 31, 1938.

GOVERNMENTAL RELATIONS

In the annual report to stockholders and employees for the year 1938, reference was made to the two indictments voted by a Federal Grand Jury in Chicago against 97 persons and corporations engaged in the dairy industry, including The Borden Company and a number of its executives, charging violation of the Federal anti-trust laws.

On July 13, 1939 on motion of the defendants the Federal District Court in Chicago dismissed the indictment in the

fluid milk case, the principal ground being that the passage of the Agricultural Marketing Agreement Act had operated to remove agriculture from the purview of the Federal anti-trust laws and to substitute the Secretary of Agriculture for the Department of Justice as the government agent to regulate agriculture. The government, however, took an appeal to the Supreme Court of the United States and on December 4, 1939 that court overruled the lower court, the result being that the case goes back to the District Court for trial. The Supreme Court decision applies only to some of the important points of law involved in the case and it does not decide questions of fact or pass upon the merits in any way.

On October 11, 1939 the Federal District Court in Chicago quashed the indictment in the ice cream case, the principal ground being that the indictment was not specific enough. The government did not take an appeal within the required time and this case is therefore closed. It is interesting to note that it was on account of this same shortcoming, i.e. lack of particularity, that Mills Novelty Company withdrew each of the three civil suits, involving similar charges, as mentioned in last year's report.

In order to refute charges of monopoly made in earlier testimony, in May of 1939 representatives of your Company appeared before the Temporary National Economic Committee created by Congress. Our testimony (which was supported by tables and charts) was directed largely to an explanation of why the consumer must pay what he does for fluid milk. We pointed out that the high price of milk to the consumer is caused by abuses practiced

by certain farm cooperative marketing organizations and by certain labor organizations without forward-looking leadership. The abuse by those cooperative marketing organizations consists in their exacting for milk consumed in fluid form prices entirely out of relationship to the prices for milk used in other forms, which latter are determined by world markets and establish the fundamental value of all milk. The abuse by such labor organizations consists in their imposing excessive wage scales and commission rates. Two major items — the cost of the raw product and the cost of labor — make up so large a part of the cost of providing fluid milk to the consumer that other cost factors are of little significance in determining prices.

If these two basic abuses are eliminated, the retail price of milk will find its natural lower level, employment will be stabilized throughout the industry and at good wages, the farmer will receive a sound price for his milk, production and consumption will be more nearly in balance and, since the burden of carrying the surplus (now borne for the most part by the larger distributors) will no longer be such an onerous one, all producers and all distributors will be more nearly on an equal basis.

A printed copy of the statement made to the Temporary National Economic Committee will be mailed to any stockholder upon request.

The Borden Company is in no sense a monopoly. We are looking forward to the time when such unwarranted charges will be completely discredited and the true service which our Company renders to both farmers and consumers will be generally accepted.

FLUID MILK DIVISION

During the year there was some clarification of government price fixing policies, which has resulted in a more equitable enforcement of the high fluid milk price decreed under most government orders. Many previous attempts at governmental price fixing have failed because of the lack of prompt and vigorous enforcement. With the Supreme Court decision in June 1939 confirming the powers of the United States Department of Agriculture, the government authorities are now in a position to summarily enforce their decrees without protracted litigation. As in previous years we have repeatedly pointed out that one of the greatest potential dangers in governmental price fixing in the milk industry is the ever present pressure to set fluid milk prices far above their actual relationship to other dairy products. Because such an overwhelming proportion of each dollar of sales is represented by three items, cost of milk, labor, and taxes, all attempts to set higher and higher fluid milk prices to producers inevitably increase prices to consumers with disastrous effect on consumption. This in turn vitally affects distributing costs.

In some markets the Fluid Milk Division continues under the severe handicap of excessive labor costs per quart of milk distributed. This necessitates too high prices to consumers with a consequent reduction in employment.

The Company is not, of course, opposed to unionization and it believes in high wages for employees giving a full measure of service. The evils that exist in certain markets come from attempts of shortsighted labor leadership to unduly increase

wages and at the same time to limit the work performed to a point far below that required for efficient distribution. The effect on unit costs and prices is thus very much greater than the mere increase in wages suggests.

This problem of excessive costs resulting from limitation of output is not restricted to fluid milk distribution although it does fall with especially heavy force on this industry because of the high wages paid and the large amount of labor used in distribution. Evidence is readily available that the same tactics are being used in other industries. If this trend continues, and costs are unduly increased by limiting output to a point below efficient operation, it is inevitable that retail prices and costs of living will rise despite the effort of industry to keep them down.

In order to reduce distribution costs, the Company originated and developed the two-quart paper container for trial distribution in New York City. Experience has not yet been long enough to accurately measure the saving in distribution cost, but trial tests indicate that when a large volume is so distributed, the attendant savings will compensate the Company for the lowered price at which milk has been made available to the consumer.

The profit results of the Fluid Milk Division as a whole were disappointing. Chaotic marketing conditions existed in some large markets due to high purchase prices imposed on some dealers, while at the same time there existed a disregard of government orders by others. This naturally resulted in severe price cutting. These conditions have recently improved somewhat.

ICE CREAM DIVISION

The Ice Cream Division enjoyed a very satisfactory year, total gallonage sold being the largest since 1931. Despite somewhat higher costs, particularly in the last quarter, profits were larger than in 1938.

Territorial expansion included acquisition of established units in Rochester, N. Y. and Boston, Mass., as well as expansion of delivery service to other sections from existing operations.

The volume of ice cream consumed is largely dependent upon two major factors; favorable weather, particularly during the summer months, and favorable general business conditions which produce a satisfactory level of general purchasing power. With the improved conditions generally hoped for in 1940, we look forward to continued progress in this division.

MANUFACTURED PRODUCTS

The results secured from the program of modernization and development inaugurated several years ago have been very encouraging. Both profits and unit volume were substantially increased over 1938 and other recent years. The Company is always alert to new opportunities in this field, and looks forward confidently to finding new products and discovering new uses for old ones. As an example, the powdered milk industry which now furnishes a market for the milk of over 100,000 farms was originally developed by Borden. These products now have wide use in the baking and confectionery fields and this development is an example of the increasing benefits accruing to the American farmer from scientific and commercial research conducted by Borden.

The aggressive development of the products in this group will be continued

in 1940 and the outlook for both increased volume and profits is promising.

EXPORT

The Export Division continued to enjoy increased volume and profits, although growth was somewhat hampered by import and currency restrictions in some foreign countries. This has been accentuated since the outbreak of the European war.

THE EFFECT OF THE WAR

It would be rash to predict the effect of a prolonged European war upon the Company. Such a catastrophe would be bound to affect the political, economic and social developments throughout the world. So far, the war has had no substantial repercussions on our business or the dairy industry generally.

The Company has and must maintain substantial balances and inventories in foreign countries, principally Canada, and their conversion into American dollars may at times be difficult due to government exchange controls existing in most belligerent countries. Likewise, sales made to foreign countries ultimately must be converted to American dollars. This problem is not now of serious proportion as is indicated by the fact that as of December 31, 1939 \$403,233 of unremitted income and \$4,247,859 of Net Current Assets remained in foreign jurisdictions. These amounts may increase somewhat in 1940.

During the 1914-1918 war, a great demand was made on the dairy industry for supplies of these important foodstuffs, particularly condensed and evaporated milks, for European civil and military consumption. During the last twenty years strenuous efforts have been made by most all European countries to increase their

home production of dairy products with the result that these nations now find themselves more independent of importations than was the case in 1914. Consequently, even in event of a prolonged conflict, we do not believe that there will be any such urgent demand as existed before. Except in the case of governmental request, the Company will not build any new plants to care for war demands. Our experience, in common with many other American industries, indicates that a so-called war demand and prosperity is at best short-lived and the inevitable adjustment after cessation of hostilities can be extremely disastrous.

CASEIN AND ADHESIVES

Casein operations showed a marked improvement, particularly in the last six months. The principal use of casein is in the production of paper and in the manufacture of various types of adhesives. The capacity operation of the paper industry in the latter part of the year resulted in an abnormal demand for casein which your Company was fortunately able to supply.

In addition to adhesives made from casein, the Company manufactures and sells glues made from seed meals and synthetic resins. These products are marketed by the sales organization of this Division. The operation for the year was quite satisfactory and gives every promise of continued performance in 1940.

PRESCRIPTION PRODUCTS

The sales volume of Biolac, a new infant food of the evaporated type, continued to expand, and additional clinical research under able medical leadership is being carried on. Evidence of new nutritional values in new infant foods is being studied, and the Company is searching for other products of this type which may be pro-

moted ethically through the medical profession.

SPECIAL PRODUCTS DIVISION

This Division which was started in 1936 has shown constant improvement. Among its principal products is "Flaydry", an exclusive Borden poultry feed, which has merited an increasing patronage throughout the country. A number of new products will be introduced during the coming year. Development of additional products is being carried on. Plant expansion will be necessary due to the varied products now being sold and new products now being introduced. Diversification and new uses for milk derivatives and vitamin products make the future of this Division look encouraging.

PRODUCE DIVISION

From a profit standpoint the operations in this group, being largely in China, were very disappointing. The continuation of the conflict in the Far East, together with the difficulties of transportation and foreign exchange caused by the European war, accentuated the difficulties experienced in this operation. There was no damage during 1939 to the Company's property. The outlook for 1940 is clouded by the war conditions prevailing in Europe and China.

The domestic and Canadian operations in this Division, although relatively small, enjoyed satisfactory profits.

WORLD'S FAIR

The Company participated in the 1939 World's Fair with an Exhibit in which 150 pure-bred cows were milked on a Borden Walker-Gordon Rotolactor. The processing and bottling of the milk was also featured, as well as the production of Melorol

ice cream and the display and promotion of other Borden products.

Our Exhibit was visited by approximately 7,743,000 people — about 30% of the paid attendance at the Fair — and ranked among the first five exhibits in popularity.

The Exhibit served to demonstrate to millions of people the most modern and sanitary Borden methods of handling dairy products, and also to advance the popularity of the Borden trade character, Elsie the Cow, and thus strengthen the advertising of the Company.

Because of these favorable results the Company will continue the Exhibit at the 1940 Fair, retaining the popular features of 1939 and adding to them new displays which we believe will insure a continuance of public interest during the second year.

PERSONNEL

During 1939 the Company received with great regret the resignation as a Director of Mr. Stanley M. Ross of Columbus, Ohio, who was reluctantly forced to retire from active business on account of ill health. Mr. Ross has long been identified with the dairy industry and is one of its outstanding leaders. To succeed Mr. Stanley Ross, the Board in May elected Dr. Harry A. Ross, formerly Professor of Marketing at Cornell University and for some years past associated with the Company in an executive capacity.

In November 1939, the Board elected Mr. William Callan and Mr. Arthur W. Ramsdell, Vice-Presidents of The Borden Company, thus giving recognition to the growing importance of the Casein and Adhesive group as well as the grocery Manufactured Products line.

During the year the Board formulated, and the Stockholders approved at their annual meeting on April 19, 1939, a plan of employee retirement designed to supplement the present Social Security Act. One of the problems of modern business is the retirement of loyal aged personnel so that younger men who are more physically able to stand the strain of modern business may be able to assume positions of responsibility. The plan as adopted envisages retirement at age sixty-five except in special cases, which however must have the approval of the Board of Directors.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders will be held at 10 o'clock A.M. on April 17, 1940, at the registered office of the Company, 15 Exchange Place, Jersey City, N. J., and at that meeting this annual report for 1939 will be presented.

FINANCIAL STATEMENTS

There are presented on subsequent pages financial statements, together with the certificate of Haskins & Sells, Certified Public Accountants, setting forth the operating results for 1939 and the condition of the Company at the close of that year.

There are also presented in a more informal manner on subsequent pages many items of interest, including financial data, to both stockholders and employees.

On behalf of the Board of Directors, I wish to express sincere appreciation for the faithful efforts, loyalty and efficiency of the employees of our organization.

Submitted by order of the Board of Directors.

THEODORE G. MONTAGUE,
President

The Borden

and all Subsidiaries

CONSOLIDATED BALANCE SHEET,

ASSETS		
	December 31	
CURRENT ASSETS:	1939	1938
Cash	\$ 20,291,906.93	\$ 19,701,562.24
Marketable Securities—At Market Value: (Including deposits with Governmental bodies under Workmen's Compensation and Milk Control Laws, etc., 1939, \$1,932,985.36; 1938, \$1,679,152.52)		
Cost		
Less Reserve		
1939—\$5,541,473.19	\$129,661.35	5,411,811.84
1938— 5,752,274.82	151,084.37	5,601,190.45
Receivables	12,236,450.08	11,853,858.85
(Including salary advances to employees - 1939, \$71,882.74; 1938, \$85,568.15) less Reserve for Doubtful Accounts— 1939, \$2,069,932.80; 1938, \$1,983,001.15		
Inventories—At the Lower of Cost or Market:		
Finished Goods		
Materials & Supplies		
1939—\$9,760,331.36	\$7,753,894.31	17,514,225.67
1938— 9,754,268.24	6,454,516.78	16,208,785.02
Total Current Assets	\$ 55,454,394.52	\$ 53,365,396.56
MISCELLANEOUS ASSETS, less Reserves	\$ 2,545,870.54	\$ 2,571,318.57
(Including Mortgages, Other Receivables, etc.)		
PROPERTY, PLANT AND EQUIPMENT	\$116,630,561.82	\$102,767,250.10
(Principally at cost, but in part at lower valuations established by the Company. See comments on page 6 of Annual Report to Stockholders and Employees)		
Less Reserves for Depreciation	49,817,323.23	36,960,621.80
(Based on above property valuations)		
Net Property, Plant and Equipment	\$ 66,813,238.59	\$ 65,806,628.30
PREPAID ITEMS, ETC.	\$ 901,428.64	\$ 657,263.08
TRADE-MARKS, PATENTS AND GOOD-WILL	\$ 1.00	\$ 1.00
TOTAL	\$125,714,933.29	\$122,400,607.51

NOTE (1) The above balance sheet does not contain any salvage values which may be ultimately realized from properties, now owned and not essential to operations, which have heretofore been written off.

NOTE (2) Net current assets in foreign countries on December 31, 1939 (principally in Canada) have been converted at exchange rates prevailing on that date and included above at their U. S. dollar equivalent of \$4,247,859; other net assets in foreign countries, also principally in Canada, have been included at parities of the foreign currencies which generally reflect their U. S. dollar equivalent at the time of acquisition or construction.

Company

ry Companies

DECEMBER 31, 1939 AND 1938

LIABILITIES

CURRENT LIABILITIES:	December 31	
	1939	1938
Accounts Payable	\$ 9,800,764.07	\$ 7,738,917.26
Accrued Accounts:		
Taxes (Including Income Taxes—Estimated)	3,243,924.43	2,708,052.01
Employees' Deferred Retirement Annuities— that part of Reserve representing intended purchase payments during ensuing year	175,062.00	
Other Items	3,031,412.61	2,265,142.65
Total Current Liabilities	\$ 16,251,163.11	\$ 12,712,111.92
DEFERRED INCOME AND NON-CURRENT LIABILITIES	\$ 189,043.95	\$ 526,243.47
RESERVES:		
Contingency Reserve	\$ 2,545,184.78	\$ 2,545,184.78
For purchase of Employees' Deferred Retirement Annuities—based on service prior to July 1, 1939	3,371,779.70	
(intended payments during ensuing year shown under Current Liabilities)		
Insurance and Other Operating Reserves	5,702,728.49	5,980,946.64
Total Reserves	\$ 11,619,692.97	\$ 8,526,131.42
CAPITAL STOCK—THE BORDEN COMPANY:		
Common \$15.00 par (Authorized 8,000,000 shares)		
Issued 4,417,958 shares		
Less Treasury Stock 21,254 "		
Outstanding 4,396,704 "	\$ 65,950,560.00	\$ 65,950,560.00
SURPLUS:		
Capital Surplus	\$ 13,883,136.47	\$ 14,477,738.13
Earned Surplus	17,821,336.79	20,207,822.57
Total Surplus	\$ 31,704,473.26	\$ 34,685,560.70
TOTAL	\$125,714,933.29	\$122,400,607.51

NOTE (3) See comments on pages 6 and 7 of the Annual Report to Stockholders and Employees for reference to certain litigation instituted by the United States Department of Justice against The Borden Company and others.

STATEMENT OF CONSOLIDATED NET INCOME
For the Years Ended December 31, 1939 and 1938

	Year Ended December 31	
	1939	1938
NET SALES	\$208,789,250.58	\$212,038,654.20
COST OF SALES AND EXPENSES:		
(Including provision for depreciation of \$6,226,193.37 in 1939 and \$6,183,922.26 in 1938, insurance, taxes, and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income)	199,569,742.02	204,226,207.88
NET OPERATING PROFIT	\$ 9,219,508.56	\$ 7,812,446.32
OTHER INCOME (Less Charges for Interest)	490,891.13	460,130.23
TOTAL	\$ 9,710,399.69	\$ 8,272,576.55
DEDUCT:		
Federal and Other Income Taxes (Estimated)	\$ 1,708,403.51	\$ 1,602,888.59
Maintenance expenditures on properties not essential to operations (Less rental income of \$186,929.68 in 1939 and \$176,754.00 in 1938)	22,158.66	28,482.99
TOTAL	\$ 1,730,562.17	\$ 1,631,371.58
NET INCOME FOR THE YEAR	\$ 7,979,837.52	\$ 6,641,204.97
Net Income per share of capital stock outstanding at end of year	\$1.81	\$1.51

NOTE (a) In 1939 the Company, in order to minimize the effect of seasonal cost fluctuations, changed the method of costing out inventories as to three manufactured products from average cost basis to the last-in, first-out basis. If this change had not been made, net income for the year 1939 would have been about \$275,000 greater.

NOTE (b) Net income from foreign operations (principally in Canada) has been converted at average monthly rates of exchange prevailing during the year 1939 and is included in the above Statement at the U.S. dollar equivalent. The further adjustment incident to the conversion of net current assets in foreign countries on December 31, 1939 to their U. S. dollar equivalent has been charged against a Reserve created from Earned Surplus.

STATEMENT OF CONSOLIDATED EARNED SURPLUS
For the Years Ended December 31, 1939 and 1938

	Year Ended December 31	
	1939	1938
BALANCE AT BEGINNING OF YEAR	\$ 20,207,822.57	\$ 19,722,003.20
NET INCOME FOR THE YEAR	7,979,837.52	6,641,204.97
TOTAL	<u>\$ 28,187,660.09</u>	<u>\$ 26,363,208.17</u>
DEDUCT:		
Dividends Paid during the Year	\$ 6,155,385.60	\$ 6,155,385.60
(\$1.40 per share in 1939 and \$1.40 in 1938)		
Appropriations to Reserves:		
For purchase of Employees' Deferred Retirement		
Annuities—based on service prior to July 1, 1939	3,750,000.00	
For adjustment to U. S. dollar equivalent of net		
current assets in foreign countries on Decem-		
ber 31, 1939 (adjustment of transactions for the year		
1939 has been absorbed in net income)	460,937.70	
TOTAL	<u>\$ 10,366,323.30</u>	<u>\$ 6,155,385.60</u>
BALANCE AT END OF YEAR	<u>\$ 17,821,336.79</u>	<u>\$ 20,207,822.57</u>

STATEMENT OF CONSOLIDATED CAPITAL SURPLUS
For the Years Ended December 31, 1939 and 1938

	Year Ended December 31	
	1939	1938
BALANCE AT BEGINNING OF YEAR	\$ 14,477,738.13	\$ 14,204,140.55
Proceeds from disposal of unessential properties		
previously written off against Capital Surplus,		
and fair operating values ascribed to other such		
properties adapted to some operating use	146,772.91	273,597.58
TOTAL	\$ 14,624,511.04	\$ 14,477,738.13
Deduct—Good-Will purchased in 1939	741,374.57	
(Good-Will purchased in 1938, \$196,567.34, written off		
against reserve)		
BALANCE AT END OF YEAR	<u>\$ 13,883,136.47</u>	<u>\$ 14,477,738.13</u>

ACCOUNTANTS' CERTIFICATE

THE BORDEN COMPANY:

We have made an examination of the consolidated balance sheet of THE BORDEN COMPANY and its subsidiary companies as of December 31, 1939 and 1938, and of the related statements of consolidated net income, earned surplus, and capital surplus for the years ended those dates. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the systems of internal accounting control.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated net income, earned surplus, and capital surplus, with the footnotes thereon, fairly present the financial condition of the companies at December 31, 1939 and 1938, and the results of their operations for the years ended those dates, in conformity with generally accepted accounting principles, which, except as indicated in footnote (a), were consistently followed by the companies.

HASKINS & SELLS.

New York, February 27, 1940.

CORPORATE ORGANIZATION AND BUSINESS

THE BORDEN COMPANY, through product and territorial divisions thereof, conducts substantially all of the following described business in the United States and in Export Markets, while a comparatively few subsidiaries conduct the remaining business. The Canadian subsidiaries, as heretofore, operate the business in the Dominion.

The Borden Company (a New Jersey Corporation) owns 100% of the stock of all its subsidiaries, one of which is The Borden Company, Limited. The latter, in turn, owns 100% of the stock of its Canadian subsidiaries.

The business of the Company falls into three general groups as follows:—

MANUFACTURED PRODUCTS: Manufacture and sale of Eagle Brand Condensed Milk since 1857; also other brands of condensed milk, evaporated, malted and dry milk; caramels, mince meat, dried fruit juices, etc.; and package, loaf, bulk and fancy cheeses, as well as the produce activities.

This group of products also includes casein, milk sugar, adhesives, prescription products such as Dryco, package Klim and Biolac; also flavors and flavoring extracts. Vitamin products for use in pharmaceuticals and in animal and poultry foods are also included in this group.

Business of the above nature is conducted throughout the United States, Canada and Export Markets.

FLUID MILK: Purchase and distribution by a system of route deliveries of milk, cream, butter, eggs, etc. in the following States and Canadian Provinces:

Arizona	Indiana	Michigan	Ohio	Wisconsin
California	Kansas	Missouri	Oklahoma	Ontario
Connecticut	Louisiana	New Jersey	Pennsylvania	Quebec
Illinois	Massachusetts	New York	Texas	

ICE CREAM: Manufacture of ice cream and allied products for distribution in the following States and Canadian Provinces:

Arkansas	Iowa	Michigan	New York	West Virginia
California	Kansas	Missouri	Ohio	Wisconsin
Connecticut	Kentucky	Nebraska	Oklahoma	Ontario
Delaware	Louisiana	New Hampshire	Pennsylvania	Quebec
Illinois	Maryland	New Jersey	Texas	
Indiana	Massachusetts	New Mexico	Vermont	

How We Stood on December 31, 1939

Following the custom established last year, wherein the Financial Statements were presented in a more descriptive manner, and in answer to numerous requests that this practice be continued, there is submitted herewith data for 1939. The Balance Sheet is simply a statement which shows what is owned; what is owed; and the difference represents the net worth. The values on the following statement have been divided by the average number of employees (28,099) to show also the investment per employee.

WE OWNED (Assets)	INVESTMENT PER EMPLOYEE	
CASH —In banks and on hand available to pay for milk, payroll, supplies, freight and other services. It is sometimes necessary during the year to borrow additional funds from banks to pay for these items. The funds on hand are only sufficient for about one month's average operations, since at certain seasons more cash is required for inventories and receivables.....	\$ 20,291,907	\$ 722
MARKETABLE SECURITIES —Including substantial amounts of United States and Canadian government bonds which can be sold to provide additional cash or are on deposit with various governmental bodies to guarantee compliance with their milk control laws, workmen's compensation acts, etc.	5,411,811	193
RECEIVABLES —Money to be received by us from customers and others. This represents about 25 days' sales, most of which was collected currently in January	12,236,450	435
INVENTORIES —Stocks of finished goods, raw materials and goods in process, in plants and warehouses	17,514,226	623
MISCELLANEOUS ASSETS —Consisting principally of mortgages received from sales of properties and loans to farmers to purchase cattle, collection of which will extend beyond the current year and therefore are not included in current receivables above	2,545,870	91
LAND, BUILDINGS and EQUIPMENT —Plants in which our employees work; also machinery, processing and delivery equipment, fixtures, etc., used in our operations; after deducting the allowance for accumulated wear and tear to date (which is the depreciation reserve).....	66,813,239	2,378
PREPAID ITEMS —Including prepaid taxes, rents, etc.	901,429	32
TRADE-MARKS, PATENTS and GOOD-WILL —For which the Company has expended millions in advertising and research, but which for conservative purposes is carried at this nominal amount	1	
TOTAL OF WHAT WE OWNED (Assets)	<u>\$125,714,933</u>	<u>\$4,474</u>

WE OWED (Liabilities)

CURRENT LIABILITIES —Including bills for milk, materials, supplies and services purchased, principally in December, but not due for payment until January. This also includes provision for commissions and payrolls for the last part of the month and items on which bills have not been rendered, such as taxes and other miscellaneous expenses	\$16,251,163
<i>(It will be noted that cash as shown above was more than sufficient to cover all these current liabilities at the end of the year)</i>	
NON-CURRENT LIABILITIES —Includes liabilities not payable within the next twelve months and deferred income items, such as rent, received in advance of the date when due and therefore not part of income for the year.....	189,044
TOTAL OF WHAT WE OWED (Liabilities)	<u>16,440,207</u>

STOCKHOLDERS' FUNDS and RESERVES

Represented by the difference between total Assets and total Liabilities as follows:	
Amounts which have been retained in Reserves for contingencies that may arise and for other operating purposes	\$11,619,692
From Stockholders, who own the business and have invested in the Capital Stock and Capital Surplus	79,833,697
From Stockholders, who have left a part of past earnings in the business in order to increase the earnings on their investment, as shown by the Earned Surplus Account	17,821,337
TOTAL STOCKHOLDERS' FUNDS and RESERVES	<u>\$109,274,726</u>

The Results of 1939 Activities

The Company's Statement of Net Income, following last year's custom, also is presented below in a more descriptive manner. While the Balance Sheet shows how we stood on the last day of the year, the Income Statement shows the results for the full year's operations. The relation of the principal items to the sales dollar is expressed in percentages of the latter. Attention is directed to the large percentage which the total amount paid for dairy products, payroll, and taxes bears to the total sales dollar.

RECEIPTS:

		PER CENT OF SALES DOLLAR
SALES—Amount charged our customers for products sold	\$208,789,250	100. %
OTHER INCOME—Including interest on marketable securities and after deducting interest paid on drivers' deposits, etc.	490,891	
TOTAL	\$209,280,141	

DISPOSITION:

TO FARMERS—Paid for milk, cream, butter, cheese, etc.	\$ 87,753,092	42.0%
PAYROLL—Employees were paid in wages and salaries	51,380,063	24.6%
TAXES—To Federal, State, local and foreign governments	6,720,632	3.3%
<i>(This amount for taxes is about 84% of the Net Income for the year)</i>		
TOTAL DAIRY PRODUCTS, WAGES AND TAXES.....	\$145,853,787	* 69.9%

*This 69.9% is for all combined operations including evaporated milk, dry milk, ice cream, etc. as well as fluid milk. As to those districts conducting a fluid milk business only, the ratio of these costs to the sales dollar is higher, being about 78%.

COSTS AND EXPENSES OF OPERATIONS—Paid suppliers for bottles, containers, packing materials, coal, oil, gasoline, feed, sugar, tin plate and other materials; and others for services such as freight, rent, light, power, telephone, telegraph, advertising, repairs and other items, after deducting miscellaneous operating income	49,220,324	23.3%
DEPRECIATION—This year's proportion of the amount necessary to provide for the eventual replacement of buildings, machinery, vehicles and equipment, due to wear and tear in the Company's operations.....	6,226,193	3.0%
TOTAL OF ABOVE COSTS AND EXPENSES	201,300,304	
NET INCOME—Balance available for STOCKHOLDERS	\$ 7,979,837	3.8%

This represents a return on sales of 3.8%. After payment of dividends of \$6,155,385 to Stockholders, the balance of Net Income was left in the business and thus strengthens the Company's financial condition.

What Borden Does with MILK

from Country to Ultimate User



MILK IS RECEIVED FROM THE FARMER, TESTED, COOLED AND EITHER PROCESSED IMMEDIATELY OR

Bottled Milk

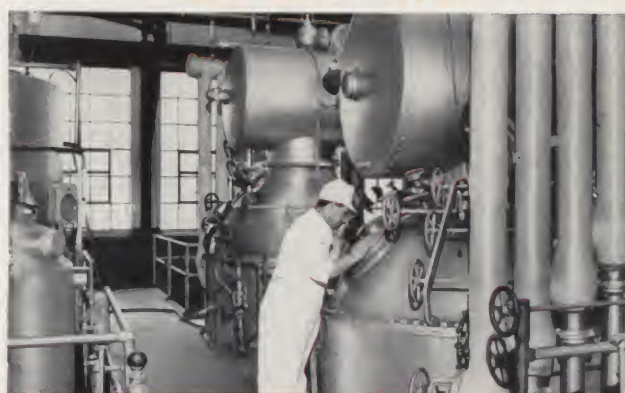


PASTEURIZER: At the pasteurizing plant, milk is heated to 143° F. (left of picture) and held at that temperature in tanks (at right) for thirty minutes. This process makes the purity and safety of bottled milk doubly sure.

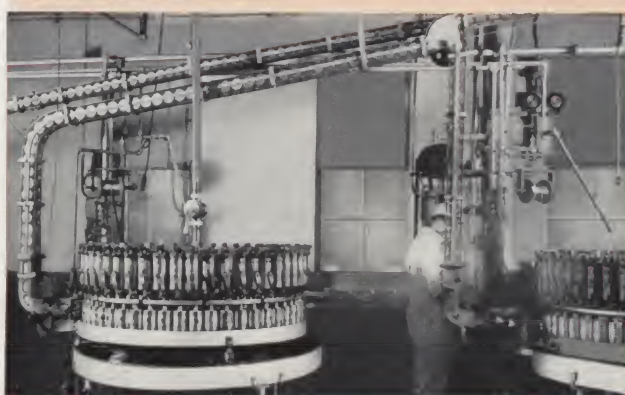


MILK BOTTLE FILLER: After the milk is pasteurized and, in some plants, irradiated with Vitamin D, it is filled into bottles which have been soaked, washed, scoured and sterilized for 22 minutes. From the filling line, the bottles are kept under refrigeration until delivered to the customer.

Condensed Milk



VACUUM PAN: Gail Borden was the first American to condense milk, removing water content by heat under vacuum. About 60% of the water is removed in this vacuum pan, whence it emerges as evaporated milk, or, if blended with sugar, as condensed milk.



CAN LINE: After the milk is evaporated, it is canned, sterilized, labeled and packed into cases. It will keep for long periods on the pantry shelf. It serves in most modern homes as an ever-ready supply of wholesome milk.



Every day in 1939 Borden milk route salesmen delivered milk and cream daily on more than one million doorsteps and served, in addition, thousands of stores and factories.

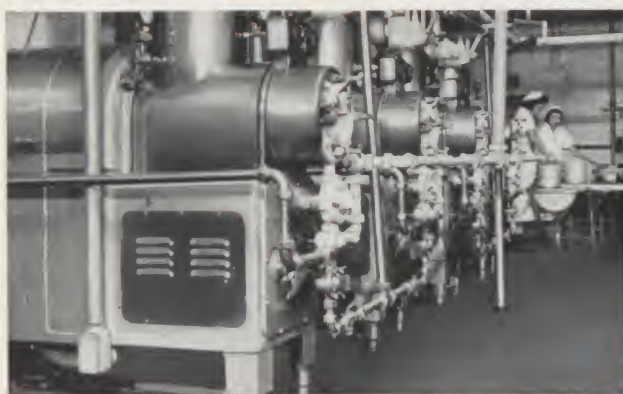


Over 250 million tins of Borden's canned milks were sold by grocers last year to provide their customers with a dependable, economical milk supply.



FORWARDED AT TOP SPEED TO PROCESSING PLANTS IN SANITARY, GLASS-LINED CARS AND TRUCKS

Ice Cream



FREEZER: Cream and milk are blended with sugar and flavor, then pasteurized and frozen instantaneously into ice cream. Modern speed in freezing has resulted in great improvement in ice cream smoothness.

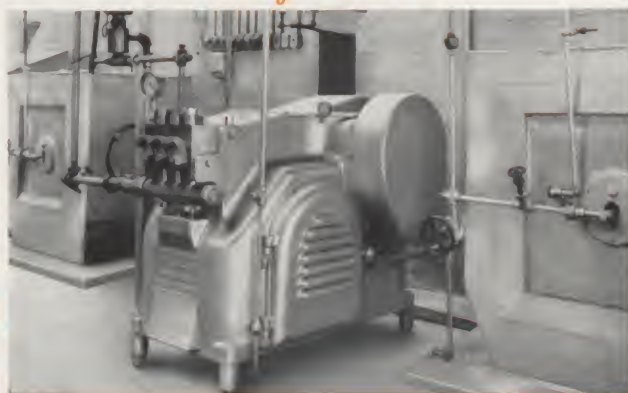


PACKAGE FILLER: Borden's Ice Cream is sold in packages, in bulk, and as novelties, such as chocolate covered Frosticks. Here it is being filled into pint packages destined for dealers' refrigerated cabinets, from which it is sold, largely for use at home.

In the United States and Canada Borden supplied fine quality ice cream to retailers serving millions of families in more than 1,100 communities.



Dry Milk

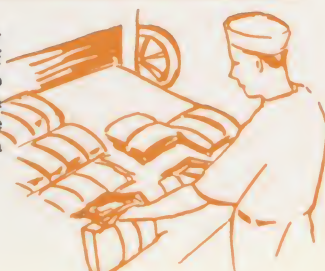


SPRAY BOX: Milk is injected as a fine spray by the pump in foreground into a chamber in which warm air currents are circulated. The water is absorbed by the air, and the solids fall to the bottom of the chamber as dry or powdered milk.



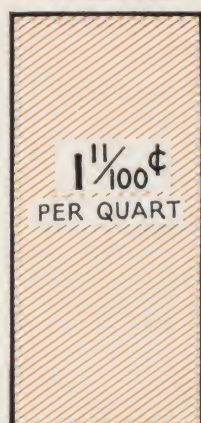
POWDER FILLING: Most of Borden's powdered milk is sold by the barrel to bakers, confectioners and other food manufacturers. However, Klim and Dryco, which enjoy world-wide reputations, are sold in small packages to the consumer.

Last year Borden sold over sixty million pounds of Dry Milk. Of this, nearly half was sold to bakers, a greater part of which was used to improve the nutritive value of more than one billion loaves of bread.

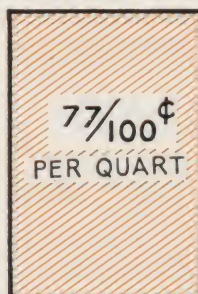


How Borden's Reduction in the Cost of Milk Distribution in Metropolitan New York, from 1932 to 1939, Has Benefitted Customers

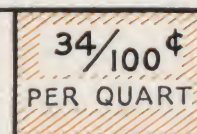
AVERAGE PRICE PAID FARMERS
INCREASED



BUT
AVERAGE SELLING PRICE*
INCREASED ONLY



BECAUSE
ECONOMIES DECREASED
COST OF SERVICE**



From 1932, the low point of the depression, to 1939 the average selling price per quart has increased only $\frac{3}{4}$ of a cent although the amount paid to farmers has increased more than a full cent. Customers bore only 70 per cent of the higher price paid to farmers because of the greater efficiencies in distribution. The cost of this distribution service was actually decreased $\frac{1}{3}$ of a cent per quart, *in spite of substantial increases in wage rates and tax costs more than doubling*. Without this decrease, service costs in 1939 would have been \$1,450,000 greater.

The above figures apply to Borden's Farm Products business in Metropolitan New York. While selling prices, farm prices and service costs vary in other fluid milk divisions of The Borden Company, similar trends prevail in those operations.

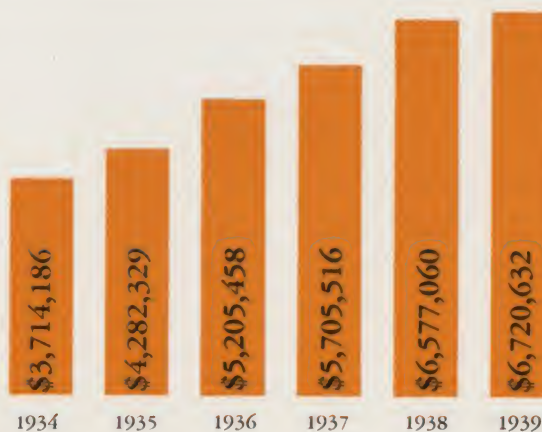
*The average selling price per quart applies to all dairy products sold. It includes all grades of milk, cream, buttermilk, chocolate drink, cottage cheese, etc., in all sizes of containers, whether sold at wholesale or retail. In short it is the entire revenue from sales for the whole year divided by the number of quarts of milk which were purchased from farmers in order to produce these products.

**The cost of service (distributor's spread) is the difference between the average price received from customers and the price paid farmers. It includes farm inspection costs; country receiving expense; transportation by rail or truck from country to city; pasteurization and bottling cost in city; laboratory control; delivery costs; wages, taxes, containers, coal, gasoline, oil, tires, feed, rent, light, telephone, advertising, repairs and many other items, as well as the small fractional part of a cent profit.

The Increase in Taxes

Taxes, including Social Security, paid by The Borden Company in *all* combined operations are constantly increasing. In 1939 taxes were 81 per cent more than in 1934, an increase of \$3,006,446.

During this six year period taxes per share of stock outstanding increased from \$.84 to \$1.53.



THE ECONO-WAY SYSTEM

of Milk Distribution to Homes in 2-Quart Paper Containers

IN November 1939, after a thorough experimental test in Rockland County, N. Y., Borden offered milk in two-quart paper containers to the Metropolitan market at a saving to the public of 3¢ per package, or 1½¢ per quart.

This Borden development is universally regarded as a notable improvement in the handling and distribution of milk. Unlike countless earlier improvements, most of which have in one way or another tended to add expense, this new Econo-way System develops savings that are passed on in their entirety to the consumer.

The plan comprehends, in the case of single quart customers, the delivery of two quarts of milk *every other day* in the modern single service container, instead of one quart every day in the conventional glass bottle.

Econo-way Service saves the collecting, sorting, checking, washing, inspecting, loss and breakage of bottles. It saves expensive bottle-washing machinery.

The weight of a load of milk in two-quart paper containers is less than half of the weight of the same amount of milk in glass, resulting in a saving of gasoline, oil, tires, and vehicle wear and tear.

The milkman on the route has less than half the weight he formerly had to carry to the consumer's doorstep. He has no bottles to collect and return. He has fewer daily stops to make. His earnings will actually go up as volume increases—as the lower price attracts additional customers and increases consumption, route jobs will be saved, and new jobs may actually be created.

The full price to the farmer is maintained.

Finally, the consumer gets home delivered milk at 1½¢ a quart lower price.

ORIGINATED BY BORDEN



Saves room in refrigerator. This two-quart container takes up very little more space than a one-quart glass bottle. Flavor is sealed in — ice box odors are sealed out.



Can't drip when pouring — and the patented cap covers the pouring lip, giving complete sanitary protection.

The plan has thus far met with reasonably favorable public reception. Consumers, in the main, are pleased with it. Notwithstanding the fact, however, that millions of quarts of milk have been sold in one-quart paper containers in New York over the period of the past ten years, resistance to the two-quart paper container itself offers some continuing difficulty. Another major resistance has to do with somewhat tardy public acceptance of every-other-day service. Both of these objections,—representing in effect only natural resistance to a complete change in consumer milk buying habits,—it is believed will be dissipated as the public becomes used to the modern way.

It is expected that the Econo-way Service will be available in all the five boroughs of Greater New York in the early part of March this year.



No bottles to wash. The container comes to you new — when empty, it's through.

Borden . . . A HOME INSTITUTION OF THE UNITED STATES AND CANADA

	Dairy Products Wages and Taxes Paid for in 1939	Number Employees Average 1939	Number Stockholders Dec. 31, 1939
New England States	\$ 5,008,414	683	5,154
Middle Atlantic States	56,446,809	12,239	21,031
East North Central States	46,042,290	7,762	7,856
West North Central States	5,237,750	505	2,150
South Atlantic States	867,388	348	2,520
East South Central States	2,959,671	310	742
West South Central States	4,999,063	1,149	1,024
Mountain States	919,876	154	734
Pacific States	9,491,605	1,728	3,812
United States Federal Taxes	2,197,573		138
United States Territories			1,496
Canada	10,961,840	2,654	232
Other Countries	721,508	567	
TOTAL	\$145,853,787	28,099	46,889

In the **PACIFIC States**—
California received the largest payment, \$8,714,372,
for dairy products, wages and taxes and had 1,636
Borden employees and 3,214 stockholders.

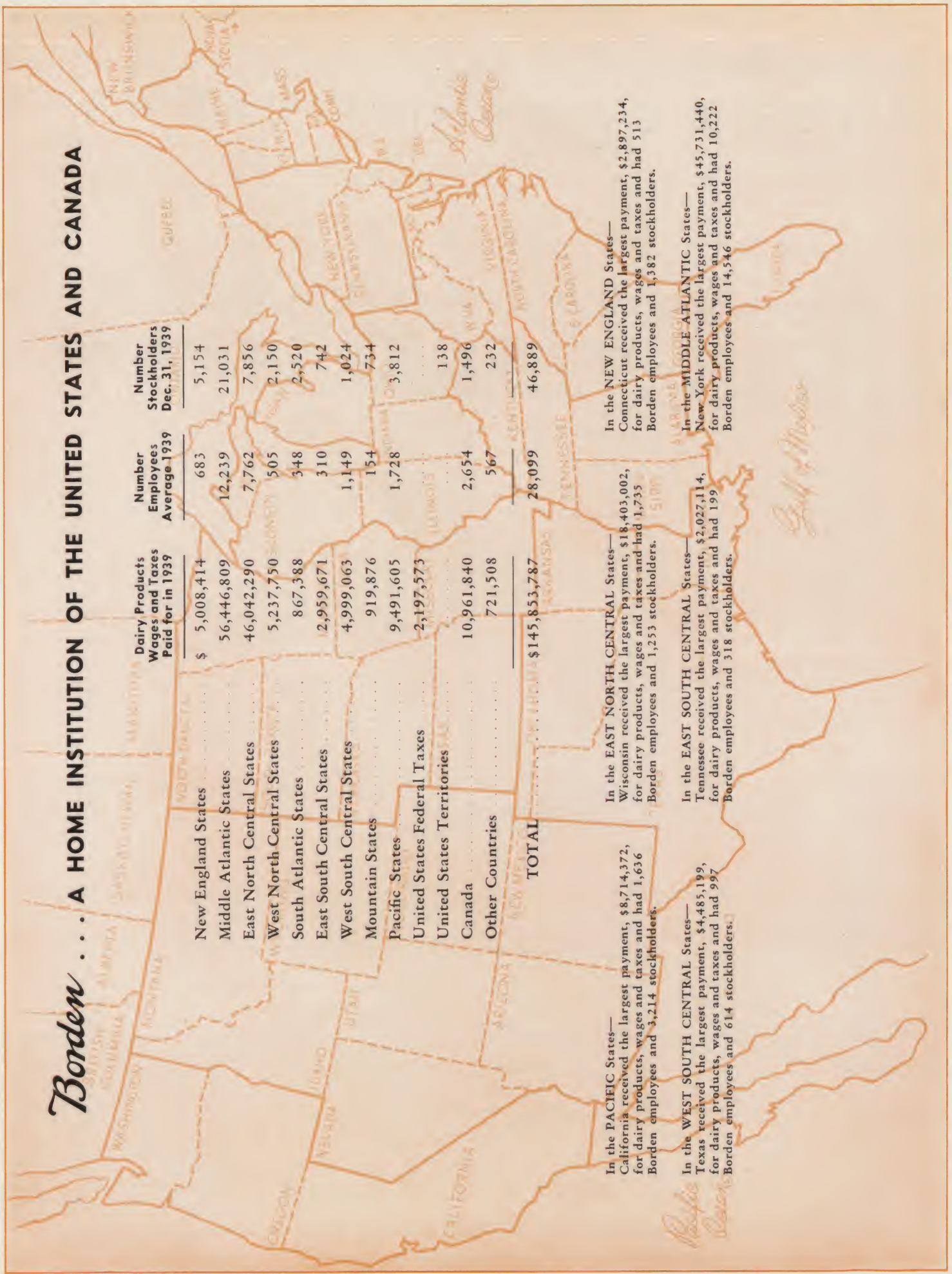
In the **WEST SOUTH CENTRAL States**—
Texas received the largest payment, \$4,485,199,
for dairy products, wages and taxes and had 997
Borden employees and 614 stockholders.

In the **EAST NORTH CENTRAL States**—
Wisconsin received the largest payment, \$18,403,002,
for dairy products, wages and taxes and had 1,735
Borden employees and 1,253 stockholders.

In the **EAST SOUTH CENTRAL States**—
Tennessee received the largest payment, \$2,027,114,
for dairy products, wages and taxes and had 199
Borden employees and 318 stockholders.

In the **NEW ENGLAND States**—
Connecticut received the largest payment, \$2,897,234,
for dairy products, wages and taxes and had 513
Borden employees and 1,382 stockholders.

In the **MIDDLE ATLANTIC States**—
New York received the largest payment, \$45,731,440,
for dairy products, wages and taxes and had 10,222
Borden employees and 14,546 stockholders.





BORDEN *will return to the New York World's Fair in 1940*

THE success of Borden's 1939 World's Fair Exhibit has been referred to earlier in this report. Some additional figures may be of interest to Borden stockholders.

1,990,000 half pints of milk and 1,111,000 portions of MelOrol Ice Cream were produced and sold at the Exhibit. 709,000 visitors ate at Borden's Dairy World Restaurant and their average check was 39½¢, which refutes the report that all meals at the Fair were expensive.

319 people were employed at the Exhibit. A total of 179 cows were brought to the Fair, although only



"You'll Do Lobelia" played the part of Elsie the Borden Cow.



CROWDS AROUND THE ROTOLACTOR ON THE MALL

150 were housed there at any one time.

12 calves were born at the Exhibit.

* * * *

Borden stockholders are again urged to visit Borden at the 1940 Fair and see, first-hand, the Rotolactor and the other advanced production and processing methods which are being sponsored there. Stockholders will also be welcomed at the Borden Exhibit Club, if they will identify themselves at the information desk.



THE BOARD OF DIRECTORS HONOR THE FOUNDERS OF THE COMPANY

Portraits of Gail Borden, the founder, and Jeremiah Milbank, the first stockholder of the enterprise, established in 1857, that became The Borden Company, were presented to the company at a meeting of the Board of Directors on December 26, 1939. Gail Borden, a grandson of the founder, and Albert G. Milbank, a grand nephew of the first stockholder, presented the respective portraits.

The members of the Board of Directors and visitors present were, left to right:

WALTER H. REBMAN, *Secretary*

L. MANUEL HENDLER, *Director*

HOWARD BAYNE, *Director*

GAIL BORDEN, *Grandson of Founder*

GEORGE M. WAUGH, JR., *Executive Vice-President and Director*

MARCUS M. MUNSILL, *Director, Great-Grandson of Founder*

MADISON H. LEWIS, *Director*

GAIL BORDEN, III, *Great-Grandson of Founder*

BEVERLEY R. ROBINSON, *Director*

HARRY A. ROSS, *Director*

ROBCLIFF V. JONES, *Vice-President and Director*

THOMAS I. PARKINSON, *Director*

HAROLD W. COMFORT, *Vice-President and Director*

THEODORE G. MONTAGUE, *President and Director*

ALBERT G. MILBANK, *Chairman of Board of Directors*





"If It's Borden's—It's Got To Be Good!"